01-MVPrice-QA
(12/12/00)

MVP*rice*™
Common Questions and Answers

1) Q: What is MVP*rice*™?

A: MVP*rice*™ is an endorsement to the MPCI Rice Policy. It provides replacement cost coverage for rice insured under an MPCI Rice Policy if the commodity price at harvest is greater than the commodity price in the Spring and there is a yield loss. The amount of increase is the price increase between the January average futures price and the October average futures price with a maximum of the MVP*rice*™ Price Change selected by the Producer on the application.

For example, if the maximum MPCI Rice price election for rice is $0.055, then the MPCI Policy can only pay $0.055 per lost pound of production. However, if the harvest-time market determines that the value of Rice is $0.075 per pound, then a $0.02 per pound gap exists between the revenue the Producer receives under the MPCI Policy and the revenue the Producer would have received from marketing the lost production. A Producer without MVP*rice*™ who experiences an MPCI loss, and marketed his guaranteed production during a summer market rally for $0.08 per pound, in this example would have to purchase $0.075 Rice to fulfill the $0.08 contract. However, MPCI only pays this Producer $0.055 per lost pound. The $0.020 per pound potential revenue loss resulting from the difference between the actual market price and the MPCI price election, erodes profits and can discourage the Producer from using progressive marketing in the future.

If the Producer has an MVP*rice*™ endorsement to complement his MPCI Rice Policy, however, the scenario outlined above has a very different result.

If the Producer purchases an MVP*rice*™ endorsement with a $0.02 MVP*rice*™ Price Change and the Rice Base Price is $0.06 per pound and the Rice Harvest Price is $0.075 per pound at harvest, MVP*rice*™ will pay a percentage of the difference between the Rice Base Price and the Rice Harvest Price. In this case the percentage change is 25% (($0.075 / $0.06) -1 = .25, or 25%). The 25% Rice Price Change Factor (.25) is multiplied by the Producer's MPCI rice price election and results in a MVP*rice*™ coverage of $0.014 ($0.055 x .25 = $0.014) per pound. Together, MPCI and MVP*rice*™ raise the Producer's coverage to $0.069 ($0.055 + $0.014) per pound of rice.

This insurance payment helps the Producer buy the pounds of Rice needed to fulfill his marketing contract. The MVP*rice*™ endorsement allows the Producer to optimize his marketing strategy without fear of unsustainable loss due to adverse market movement.

2) Q: How is the Rice Base Price Established?

A: MVP*rice*™ defines the Rice Base Price using the following methodology:

<u>Rice - (CBOT) - Counties with a February 28 Cancellation Date</u>

Rice Base Price (CBOT) - The January harvest year's average daily settlement price per pound for the harvest year's CBOT November rough rice futures contract rounded to the nearest one-tenth (1/10th) of a cent. The Base Price will be released as an actuarial document addendum by February 10 of the harvest year.

3) **Q:** **How is the Rice Harvest Price Established?**

A: MVP*rice*™ defines the Rice Harvest Price using the following methodology:

Rice - (CBOT) - Counties with a February 28 Cancellation Date

Rice Harvest Price (CBOT) - The October harvest year's average daily settlement price per pound for the harvest year's CBOT November rough rice futures contract rounded to the nearest one-tenth (1/10th) of a cent. The Harvest Price will be released as an actuarial document addendum by November 10 of the harvest year.

4) **Q:** **What MVP*rice*™ Price Change is available?**

A: The Producer can purchase an MVP*rice*™ Price Change of $0.01 per lb., $0.015 per lb., or $0.02 per lb. This allows the Producer to customize the policy to fit specific marketing needs.

5) **Q:** **How is the Rice Price Change Factor determined?**

A: The Rice Price Change Factor is calculated by dividing the Rice Harvest Price by the Rice Base Price and subtracting one (1). In the example above the Rice Base Price is $0.06 per pound and the Rice Harvest Price is $0.075 per pound. This results in a Rice Price Change Factor of 0.25 ((0.075 ÷ 0.06) - 1 = 0.25). If the Rice Base Price is greater than the Rice Harvest Price no MVP*rice*™ indemnity will be paid, even though the producer may have an MPCI loss and receive an MPCI indemnity payment based on the MPCI Price Election.

6) **Q:** **How is the MVP*rice*™ Payment determined?**

A: The MVP*rice*™ payment for any unit under this Endorsement will be calculated as follows:

A. Rice Price Change Factor shall be calculated by dividing the Rice Harvest Price by the Rice Base Price and subtracting 1 from this result;

B. The Rice Price Change Factor shall be multiplied by the MPCI Price Election. This result cannot be greater than the MVP*rice*™ Rice Price Change selected on the application, or $0.02;

C. Multiply the insured acreage in each unit by its respective production guarantee by type, if applicable;

D. Multiply each result in (C) by the result from (B);

E. Total the results of (D);

F. Multiply the total production to be counted by type for each unit, if applicable, (See section 12(c) through 12 (e) of the MPCI Rice Crop Provisions) by the result of 9(B);

G. Total the results of (F);

H. Subtract the result of (G) from the result of (E);

I. Multiply the result of (H) by the share.

For example, the producer has a 100% share in a 100 acre unit of rice with an APH of 6000 lbs. per acre, he selects a coverage level of 75% on the MPCI application, and selects an MVP*rice*™ Price Change of $0.02 on your MVP*rice*™ application. The production guarantee for this unit is 4,500 lbs per acre. The MPCI rice price election is $0.055 per lb., the Rice Base Price is $0.06 per lb., and the Rice Harvest Price is $0.075 per lb. Production per acre is 3000 lbs so total production to count is 300,000 lbs. The resulting MVP*rice*™ Payment is calculated as follows:

A. ($0.075 ÷ $0.06) - 1 = 0.25;

B. $0.055 x 0.25 = $0.014 MVP*rice*™ coverage per lb.;

C. 4,500 lbs. per acre x 100 acres = 450,000 lbs total production guarantee for the unit.;

D. 450,000 lbs. x $0.014 = $6,300 maximum value of MVP*rice*™ coverage for the unit;

E. $6,300 maximum value of MVP*rice*™ coverage for the single unit;

F. 300,000 lbs x $0.014 = $4200 value of production to count;

G. $4,200 value of production to count on the single unit;

H. $6,300 - $4,200 = $2,100 MVP*rice*™ Payment before share adjustment;

I. $2,100 x 100% = $2,100 share adjusted MVP*rice*™ Payment.

If, instead, the producer selects a $0.01 MVP*rice*™ Price Change on the MVP*rice*™ application the calculation for this example is as follows:

A. ($0.075 ÷ $0.06) - 1 = 0.25;

B. $0.055 x 0.25 = $0.014 MVP*rice*™ coverage per lb. The coverage per pound cannot be greater than the MVP*rice*™ Price Change that is selected on the application so the MVP*rice*™ coverage per pound would be $0.01.

C. 4,500 lbs. per acre x 100 acres = 450,000 lbs total production guarantee for the unit.;

D. 450,000 lbs. x $0.01 = $4,500 maximum value of MVP*rice*™ coverage for the unit;

E. $4,500 maximum value of MVP*rice*™ coverage for the single unit;

F. 300,000 lbs x $0.01 = $3,000 value of production to count;

G. $3,000 value of production to count on the single unit;

H. $4,500 - $3,000 = $1,500 MVP*rice*™ Payment before share adjustment;

I. $1,500 x 100% = $1,500 share adjusted MVP*rice*™ Payment.

7) Q: If there is an MPCI loss, is there automatically an MVP*rice*™ loss?

A: Not necessarily. Under the MVP*rice*™ endorsement, the insured can have an MPCI loss and not have an MVP*rice*™ loss. This happens if the market conditions do not produce a price gap between the Rice Base Price and the Rice Harvest Price. In this situation the producer benefits from MVP*rice*™ in a different way. The MVP*rice*™ policy gives the producer the financial security and confidence to forward contract new crop production for harvest delivery without fear that adverse market movement will combine with a production loss to result in an unacceptable loss.

8) Q: Can MVP*rice*™ be purchased without an MPCI policy?

A: No. The MVP*rice*™ endorsement is available only to rice producers who purchase an MPCI Rice Policy. The MVP*rice*™ Endorsement is not available with a Crop*Revenue* Coverage rice policy or a Catastrophic Risk Protection Endorsement.

9) Q: What MPCI coverage levels can be selected and still have the MVP*rice*™ endorsement?

A: The MPCI policy can be in force at any valid MPCI level, but must use the maximum MPCI Rice Price Election for the crop.

10) Q: When is the MVP*rice*™ premium due?

A: Premium for the MVP*rice*™ Endorsement is due on the same date as the MPCI premium.

11) Q: Is a separate MVP*rice*™ application required for each county where rice is produced?

A: A producer must submit a separate MVP*rice*™ application for each county.

12) Q: Does MVP*rice*™ require a separate acreage report?

A: No. The acreage report submitted for the MPCI policy also will be used for the MVP*rice*™ endorsement.

13) Q: Is the MVP*rice*™ endorsement a continuous endorsement?

A: No. MVP*rice*™ Endorsement expires at the end of the 2001 insurance year.

14) Q: What is the latest date for which an insured may make an application for MVP*rice*™ coverage?

A: The latest date for which an insured may make an application for MVP*rice*™ coverage is the Sales Closing Date for the MPCI Policy for Rice.

15) Q: When does MVP*rice*™ coverage begin?

A: MVP*rice*™ coverage attaches at the same time as the MPCI Rice Policy coverage. The producer will be billed for the MVP*rice*™ premium at the same time that the premium for the MPCI Rice Policy is billed, although premium will be considered earned and payable on acceptance of the MVP*rice*™ application.

16) Q: Will an MVP*rice*™ payment be made for replant payment?

A: No. MVP*rice*™ covers only production losses and will not provide an indemnity for replanting.

17) Q: Are prevented planting losses eligible for MVP*rice*™ payments?

A: No. MVP*rice*™ only covers production losses and will not pay for prevented planting.

18) Q: Are late planted acres covered by MVP*rice*™?

A: Yes.

19) Q: When will an MVP*rice*™ Indemnity be payable?

A: An MVP*rice*™ loss will be payable whenever there is both a payable MPCI production loss and the Rice Harvest Price is higher that the Rice Base Price.

20) Q: Is it possible to elect both MVP*rice*™ and the Coverage Enhancement Option (CEO)?

A: No, the producer may not elect both options.

21) Q: If a producer has a good experience discount on the MPCI portion of the policy, will this also be reflected in the MVP*rice*™ rate?

A: No, the good experience discount does not apply to the MVP*rice*™.